The HNB Group

**Insurance**
- PAT: Rs 2.7 Bn
- ROE: 57%

**Microfinance**
- PAT: Rs 848 Mn
- ROE: 20%

**Investment Banking**
- PAT: Rs 610 Mn
- ROE: 15%

**Real Estate**
- PAT: Rs 281 Mn
- ROE: 4%

**Sithma Development**
Financial Performance FY 2018
## Net Operating Income - Group

<table>
<thead>
<tr>
<th>Description</th>
<th>2018 (Rs Bn)</th>
<th>2017 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>116.5</td>
<td>103.9</td>
<td>12%</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>62.9</td>
<td>58.4</td>
<td>8%</td>
</tr>
<tr>
<td>NII</td>
<td>53.6</td>
<td>45.5</td>
<td>18%</td>
</tr>
<tr>
<td>Net Fee Income</td>
<td>10.1</td>
<td>9.0</td>
<td>12%</td>
</tr>
<tr>
<td>Net Insurance Premium</td>
<td>7.4</td>
<td>6.3</td>
<td>17%</td>
</tr>
<tr>
<td>Other Income</td>
<td>3.9</td>
<td>0.3</td>
<td>1,229%</td>
</tr>
<tr>
<td>Impairment</td>
<td>9.8</td>
<td>3.9</td>
<td>149%</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>65.4</td>
<td>57.2</td>
<td>14%</td>
</tr>
</tbody>
</table>
## Expenses & Profits - Group

<table>
<thead>
<tr>
<th></th>
<th>2018 (Rs Bn)</th>
<th>2017 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>32.4</td>
<td>28.8</td>
<td>12%</td>
</tr>
<tr>
<td>VAT, NBT &amp; DRL</td>
<td>6.8</td>
<td>5.4</td>
<td>26%</td>
</tr>
<tr>
<td>PBT</td>
<td>26.5</td>
<td>23.1</td>
<td>15%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>7.3</td>
<td>6.4</td>
<td>15%</td>
</tr>
<tr>
<td>PAT</td>
<td>19.1</td>
<td>16.7</td>
<td>14%</td>
</tr>
<tr>
<td>Profit Attributable to Shareholders</td>
<td>17.6</td>
<td>15.9</td>
<td>11%</td>
</tr>
</tbody>
</table>
## Net Operating Income - Bank

<table>
<thead>
<tr>
<th></th>
<th>2018 (Rs Bn)</th>
<th>2017 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>108.1</td>
<td>96.2</td>
<td>12%</td>
</tr>
<tr>
<td>Interest Expenses</td>
<td>60.5</td>
<td>56.5</td>
<td>7%</td>
</tr>
<tr>
<td>NII</td>
<td>47.6</td>
<td>39.6</td>
<td>20%</td>
</tr>
<tr>
<td>Net Fee Income</td>
<td>9.4</td>
<td>8.3</td>
<td>13%</td>
</tr>
<tr>
<td>Other Income</td>
<td>3.7</td>
<td>1.7</td>
<td>118%</td>
</tr>
<tr>
<td>Impairment</td>
<td>9.3</td>
<td>3.0</td>
<td>206%</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>51.4</td>
<td>46.6</td>
<td>10%</td>
</tr>
</tbody>
</table>
## Expenses & Profits - Bank

<table>
<thead>
<tr>
<th></th>
<th>2018 (Rs Bn)</th>
<th>2017 (Rs Bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>22.1</td>
<td>19.6</td>
<td>13%</td>
</tr>
<tr>
<td>VAT, NBT &amp; DRL</td>
<td>6.4</td>
<td>5.0</td>
<td>27%</td>
</tr>
<tr>
<td>PBT</td>
<td>23.0</td>
<td>22.1</td>
<td>4%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>7.4</td>
<td>5.6</td>
<td>33%</td>
</tr>
<tr>
<td>PAT</td>
<td>15.5</td>
<td>16.5</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Growth Rates:**
- Operating Expenses: 13%
- VAT, NBT & DRL: 27%
- PBT: 4%
- Income Tax: 33%
- PAT: 6%
Movement in Group Profit Attributable to Shareholders

<table>
<thead>
<tr>
<th>Year</th>
<th>NII</th>
<th>Fee Income</th>
<th>Other Income</th>
<th>Provisions</th>
<th>OpEx</th>
<th>Taxes</th>
<th>Minority</th>
<th>2018 PAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>8.17</td>
<td>1.08</td>
<td>15.95</td>
<td>0.72</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>17.64</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td>4.94</td>
<td>5.86</td>
<td>3.57</td>
<td>2.36</td>
<td>0.72</td>
<td>17.64</td>
</tr>
</tbody>
</table>

Percentage Changes:
- NII: +18%
- Fee Income: +12%
- Other Income: +73%
- Provisions: +149%
- OpEx: +12%
- Taxes: +20%
- Minority: +91%
- 2018 PAS: +11%
Movement in Bank PAT

<table>
<thead>
<tr>
<th>Component</th>
<th>2017 PAT</th>
<th>2018 PAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>NII</td>
<td>7.93</td>
<td>1.09</td>
</tr>
<tr>
<td>Fee Income</td>
<td>16.47</td>
<td>2.01</td>
</tr>
<tr>
<td>Other Income</td>
<td>6.26</td>
<td>2.52</td>
</tr>
<tr>
<td>Provisions</td>
<td>3.20</td>
<td>(6%)</td>
</tr>
<tr>
<td>OpEx</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018 PAT</td>
<td>15.52</td>
<td></td>
</tr>
</tbody>
</table>

Change in percentages:
- NII: +20%
- Fee Income: +13%
- Other Income: +118%
- Provisions: +206%
- OpEx: +13%
- Taxes: +30%
- Unused: (6%)
DuPont Analysis – Group

ROE
13.85% (14.95%)

ROA
1.78% (1.75%)

Minority Interest
0.14% (0.08%)

Leverage Multiplier
8.47x (8.95x)

NII
4.98% (4.76%)

Other income
2.02% (1.66%)

Impairment
0.91% (0.41%)

Operating Costs
3.00% (3.02%)

Taxation
1.31% (1.24%)

2018
2017
DuPont Analysis – Bank

2018 2017

ROE
13.86% (17.79%)

ROA
1.52% (1.82%)

Leverage Multiplier
9.12x (9.80x)

NII
4.66% (4.37%)

Other income
1.28% (1.10%)

Impairment
0.91% (0.33%)

Operating Costs
2.16% (2.16%)

Taxation
1.35% (1.17%)
Consistently generating superior NIMs

Net Interest Margin

- Bank: 5.39%, 5.18%, 4.87%, 4.11%
- Group: 5.61%, 5.39%, 5.18%, 4.16%
- Industry: 5.61%, 5.39%, 5.18%, 4.16%

NII Growth (Rs Bn)

- Bank NII Growth: -3%, 7%, 7%, 7%, 7%
- Group NII Growth: 5%, 9%, 9%, 9%, 9%

Optimal Portfolio Mix

- Corporate: 45%
- SME & Micro: 30%
- Mid Market: 21%
- Retail Banking: 4%

CASA Ratio

- CASA: 35%
- Other Deposits: 65%

>270 bps of Industry ratio (Sept)
Well complimented by Fee Income

- Leadership in card merchant acquiring business with 48% of market share
- Strong growth in Credit Cards and Trade Finance
- Fees contribute 15% of total operating income

Net Fee Income (Rs Bn)

Bank’s Fee sources

- Loans
- Cards
- Trade and Remittances
- Deposits
- Guarantees
- Others
Contribution by segment

Net interest income
- Corporate: 26%
- Retail: 38%
- SME: 33%
- Micro: 3%

Non Fund Income
- Corporate: 30%
- Retail: 24%
- SME: 44%
- Micro: 2%

Total Operating Income
- Corporate: 27%
- Retail: 35%
- SME: 35%
- Micro: 3%
Operational Excellence

- 100% of retail applications processed centrally
- Centralized Disbursements
- Central Security Repository
- Paperless Office Systems

Cost to Income Ratio

TOI vs OpEx (Rs Bn)

Efficiency (Rs Mn)
### Asset Quality & Credit Cost

#### Gross NPA

- **Bank**
  - 2014: 2.0%
  - 2015: 2.28%
  - 2016: 2.50%
  - 2017: 2.78%
  - 2018: 3.40%

- **Industry**
  - 2014: 3.0%
  - 2015: 2.78%
  - 2016: 2.50%
  - 2017: 3.40%
  - 2018: 3.0%

#### Constituents of 2018 Credit Cost

- **Other Impairment**: 11%
- **Collective Impairment**: 26%
- **Individual Impairment**: 42%
- **Total Impairment**: 62%

#### Constituents of 2018 Credit Cost

- **Specialization via Centralized Credit Underwriting**
- **Centralized Collection System**
- **Structural revamping with emphasis on specialized verticals for Underwriting & Recoveries**
- **Appointment of Senior Executive as Chief Credit Officer**
Sustainable Returns to Shareholders

**Group (Rs Bn)**

- **Operating Profit**
- **PBT**
- **PAT**
- **PAS**

**Bank (Rs Bn)**

- **RO A & RO E**
- **RO E Bank**
- **RO E Group**
- **RO A Bank (R)**
- **RO A Group (R)**

**ROA & ROE**
Strong Growth

**Loans & Deposits (Rs Bn)**

- Loans
- Deposits
- Loan Growth (R)
- Deposit Growth (R)

**CASA (Rs Bn)**

- CASA (L)
- HNB Growth
- Industry Growth

**Assets (Rs Bn)**

- Bank
- Group
- Bank Growth (R)
Sound Capitalization

- Healthy Balance between sound capitalization & growth
- Total Tier I Capital at 12.80%, 280 bps higher than Basel III Minimum for DSIB’s as of 1st Jan 2019
- Total Capital Ratio at 15.22%, 122 bps better than Basel DSIB requirement

![Graphs showing Total Tier I and Total Capital over years with notes on trends and achievements.](image-url)
Profitability vs Risk

- Very Strong Risk Adjusted Performance
- Highest Total Tier I among Peer Banks
- Lowest NPA among Peer Banks

ROE vs Total Tier I

ROA vs Gross NPA
Shareholder Return – 12 Months

12 Month Share Movement - Feb 20 (Rs)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS (Rs)</td>
<td>35.80</td>
</tr>
<tr>
<td>BVPS (Rs)</td>
<td>269.28</td>
</tr>
<tr>
<td>PBV (X)</td>
<td>0.75</td>
</tr>
<tr>
<td>PE (X)</td>
<td>5.6</td>
</tr>
<tr>
<td>Total DPS (Rs)</td>
<td>8.50</td>
</tr>
<tr>
<td>Total Dividend Yield (%)</td>
<td>4.3 (N) &amp; 5.4 (X)</td>
</tr>
<tr>
<td>Cash DPS (Rs)</td>
<td>5.00</td>
</tr>
<tr>
<td>Cash Dividend Yield (%)</td>
<td>2.5 (N) &amp; 3.2 (X)</td>
</tr>
</tbody>
</table>
Awards & Accolades 2018

- ‘No. 1 Bank in Sri Lanka’ in Banker Global Top 1000 ranking
- ‘Best Retail Bank in Sri Lanka’ for the 10th time by The Asian Banker
- ‘Best SME Bank’ & ‘Best Digital Bank’ in Sri Lanka by Asiamoney
- ‘Best Cash Management Bank’ in Sri Lanka by Asian Banker, Asiamoney and Euromoney
- Gold Award Banking Category & Overall Runner Up - ACCA Sri Lanka Sustainability Reporting Awards
- ‘Islamic Finance Entity of the Year’, ‘Gold Award for Islamic Banking Window of the Year’ & ‘Silver Award for Islamic Finance Deal of the Year’ – Sri Lanka Islamic Banking & Finance Industry Awards
- ‘Silver Award for Investor Relations’ from CFA Sri Lanka
- Best Private Sector Organization for Promoting Women in the Workplace – Top 50 Professional & Career Women Awards 2018
Thank you

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